Performance Review

In the one month period ending 29 February 2020, the Fund’s I shares returned -7.16% (net of fees), while the benchmark returned -7.27%.

Communication services, consumer staples and information technology were the best-performing sectors in the index in February, while real estate, consumer discretionary and industrials were the worst performing. Our stock selection in materials and health care added to the Fund’s performance, while stock selection in financials and utilities were key detractors. Our underweight in consumer discretionary and overweight in communication services were the largest contributors to performance. Our underweight in consumer staples and overweight in industrials were key detractors allocation-wise.

Market Review

The MSCI India Index (down 7.3%) underperformed the MSCI Emerging Markets Index (down 5.3%) in February in U.S. dollar terms, finishing ninth among 26 emerging market countries, down from seventh position in January. Frontline, mid- and small-cap indices’ performances were broadly range-bound during the month with the BSE Sensex marginally underperforming the S&P BSE MidCap Index (down -6% against -5.6%, respectively) while marginally outperforming the S&P BSE SmallCap Index (down -6.5%) in February. The MSCI India Growth Index outperformed the MSCI India Standard and Value indices.

Foreign portfolio investors (FPI) remained net buyers, now for six months in a row, albeit at a lower levels month-over-month ($0.88 billion for February 2020) for the second month in a row. FPI inflows turned positive for debt markets in February at $56 million. On the domestic front, domestic mutual funds (DMF) remained buyers (highest in five months), buying stock worth $616 million while domestic insurance companies remained buyers at $638 million (highest in seven months). Subsequently, total institutional flows improved month-over-month at $2.2 billion in February.

The rupee (INR) depreciated by 1.1% month-on-month versus the U.S. dollar (USD) and 0.9% versus the euro during the month. In February, oil prices decreased by 11% month-on-month in USD and 10% in INR terms over rising concerns of a global demand slowdown due to ongoing coronavirus challenges to the Chinese and global economies.

Portfolio Activity

During February 2020, we exited our position in IIFL Finance. In the current macro environment, the growth environment for non-banking financial companies (NBFCs) without strong parentage or liability franchises has become a bit difficult (reflecting in relative cost of funding). Furthermore, challenges in developer, microfinance and small and medium-sized enterprise loan books are further drags for the NBFC space in the near to medium term. These reasons led to our exit from this position.

Strategy and Outlook

Economic activities continued their mixed trends in the month of February 2020. While some industrial activity indicators such as electricity generation, steel consumption and coal production showed signs of improvement, credit growth slipped to a 30-month low at 6.4% and foreign trade remained weak, although declines moderated for both exports and imports. Consumption indicators like auto sales remained largely muted in the month. Foreign investment flows remained robust.

On the macro stability front, the headline Consumer Price Index (CPI) rose to 7.6% in January (versus 7.4% in December) and was above the Reserve Bank of India’s (RBI) target band of 2% to 6% for second month in a row. The primary driver for the uptick continued to be the accelerating food prices, especially for vegetables, meat and pulses. Sequentially, the food prices declined, with food & beverages inflation trending at 11.8% year-over-year (versus 12.2% in December). Vegetables (about 6% of the index weight) contributed almost 37% of January inflation. However, the upward trend in food inflation, especially vegetable

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prices, is more transitory and should taper off shortly as the supply conditions are restored. Core inflation inched up as well, to 4.2% from 3.7% due to a telecom tariff hike, but remains well within the target range.

The Wholesale Price Index (WPI) print for January rose to 3.1% (versus 2.6% in December) on the back of a rise in food prices. Food WPI accelerated to 11.5% in the month (versus 13.2% in December) while fuel inflation rose to 34% from -1% in previous month. Further, core WPI rose to -0.8% from -1.6% in December.

On the policy front, the RBI Monetary Policy Committee (MPC) kept the repo rate unchanged at 5.15% while maintaining its stance at ‘accommodative’. The MPC revised its inflation expectations upwards for the fourth quarter of fiscal year 2020 to 6.5% (4.7% earlier) and the first half of fiscal year 2021 to 5.4-5.0% (4.0-3.8% earlier) on expectations of higher mobile tariffs, medicine price increases and the impact of new emission norms coming in. However, it expects food inflation to moderate in the near term. The pause in policy action is largely driven by near-term inflationary pressures and the pending impact from past rate actions. The MPC also observed that the economy remains weak and the output gap remains negative, and it announced some surprise positive liquidity measures, including (i) a revised liquidity management framework including Long Term Repo Operations (LTRO) and withdrawal of overnight fixed rate repo and four 14-day term repos every fortnight, (ii) cash reserve ratio relaxation linked to incremental bank lending to autos, residential housing, and micro, small and medium enterprises (MSMEs), (iii) permitting the extension of date of commencement of commercial operations of commercial real estate project loans, and projects which are delayed for reasons beyond the control of promoters, by another one year without downgrading asset classification, and (iv) extension of one-time restructuring benefit for MSMEs without an asset classification downgrade.

Overall, the MPC expects improvement in transmission and improving external conditions to provide an upside to growth while recognizing that there is monetary policy space for further action.

On the fiscal front, the fiscal year 2021 union budget presented in parliament refrained from an explicit stimulus and only utilized the limited space offered by the Financial Responsibility and Budget Management Act. Fiscal year 2020 fiscal deficit is expected at 3.8% of GDP, while prudence necessitated a move towards 3.5% in fiscal year 2021. A mix of modestly higher spending, lower personal income taxes (under an alternative personal taxation regime), abolishment of dividend distribution tax (DDT) and future reforms that can reinvigorate private investment to revive the economy were laid out.

Most domestic macro prints and high-frequency indicators show that the economy bottomed in the fourth quarter of calendar year 2019. The shape of recovery will be determined by the policy actions by the government and continued support from the RBI (easy money supply, surplus liquidity, faster transmission of rate cuts, etc). The impact of COVID-19 is yet to be seen on the Indian economy directly; however, some secondary impacts are already visible (import dependence on China). Our portfolio remains a domestic growth-oriented portfolio which we believe is positioned to benefit as the growth turnaround momentum picks up.

For further information, please contact your Morgan Stanley Investment Management representative.

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<tr>
<th>FUND FACTS</th>
<th>Base currency</th>
<th>Index</th>
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<tr>
<td>Launch date</td>
<td>U.S. dollars</td>
<td>MSCI India (Net) Index</td>
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<th>12 Month Performance Periods to Latest Month End (%)</th>
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<th>FEBRUARY ’17</th>
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<td>MS INVF Indian Equity Fund - I Shares</td>
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<td>26.33</td>
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The risk and reward category shown is based on historic data.

- Historic figures are only a guide and may not be a reliable indicator of what may happen in the future.
- As such this category may change in the future.
- The higher the category, the greater the potential reward, but also the greater the risk of losing the investment.
- Category 1 does not indicate a risk free investment.
- The fund is in this category because it invests in shares of Indian companies and the fund's simulated and/or realised return has experienced high rises and falls historically.
- The fund may be impacted by movements in the exchange rates between the fund's currency and the currencies of the fund's investments.
- This rating does not take into account other risk factors which should be considered before investing, these include:
  - The fund relies on other parties to fulfill certain services, investments or transactions. If these parties become insolvent, it may expose the fund to financial loss.
  - There may be an insufficient number of buyers or sellers which may affect the fund's ability to buy or sell securities.
  - There are increased risks of investing in emerging markets as political, legal and operational systems may be less developed than in developed markets.
  - Past performance is not a reliable indicator of future results. Returns may increase or decrease as a result of currency fluctuations. The value of investments and the income from them can go down as well as up and investors may lose all or a substantial portion of his or her investment.
  - The value of the investments and the income from them will vary and there can be no assurance that the Fund will achieve its investment objectives.
  - Investments may be in a variety of currencies and therefore changes in rates of exchange between currencies may cause the value of investments to decrease or increase. Furthermore, the value of investments may be adversely affected by fluctuations in exchange rates between the investor’s reference currency and the base currency of the investments.

Please refer to the Prospectus for full risk disclosures. All data as of 29 February 2020 and subject to change daily.
International plc, London, Zurich Branch

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